

Iowa Student Loan Liquidity Corporation
Legislative Oversight Committee Hearing
October 29, 2007 3 PM

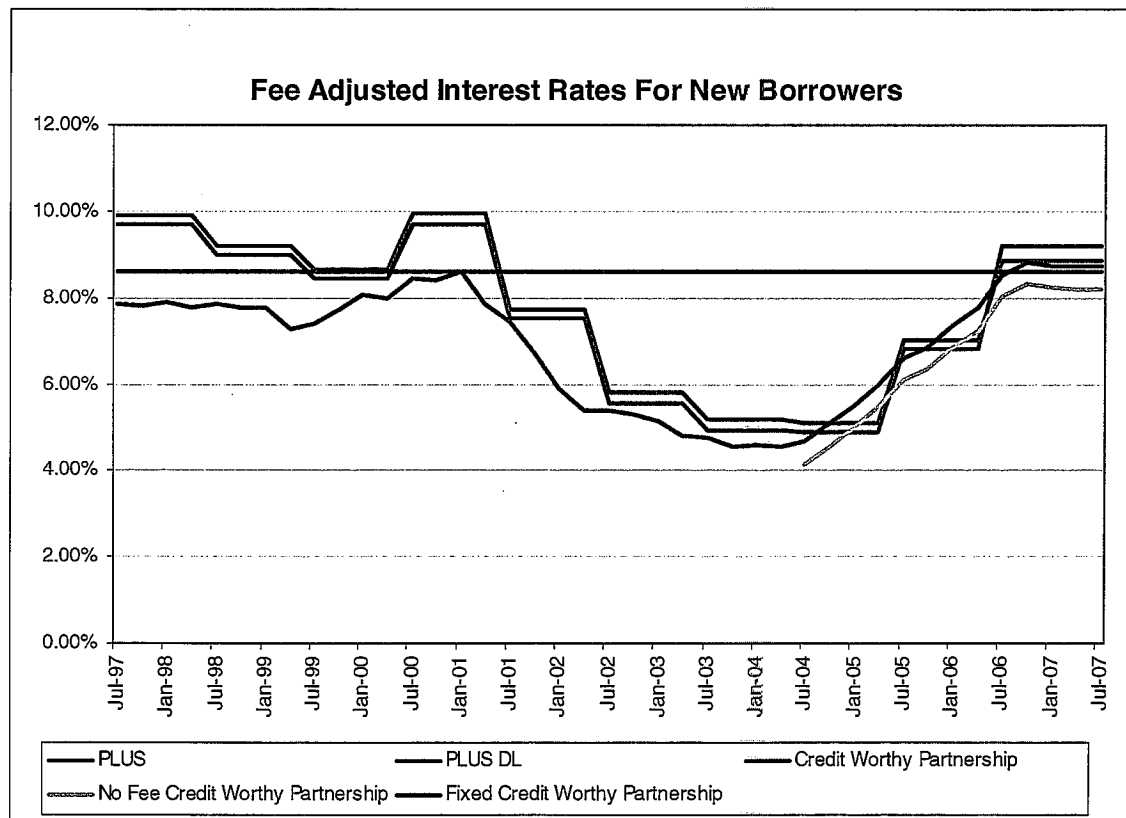
Are the Interest Rates on ISL Loans as Low as Possible?

Like a financial institution, ISL must maintain reserve levels needed to absorb potential loan losses and cash flow demands. In addition, ISL's bondholders and rating agencies require that ISL's bond issues have positive cash flow. They do not want to invest in money losing transactions. This means that ISL must charge interest rates that allow for positive cash flow.

As the state-designated, non-profit secondary market for student loans, ISL's goal has always been to offer the lowest cost student loans available to Iowans. ISL's board of directors periodically requests analysis from staff to ensure this goal is met. Attached is staff's most updated comparison chart.

ISL has been able to charge interest rates on its private student loans that have been comparable to Federal PLUS loans. This speaks to ISL's efforts to charge as low of costs as possible. See the attached memorandum.

Chart 1



Footnotes

This graph depicts the rates available to new borrowers that received their first loan on the dates noted on the X axis. The interest rate calculations for new borrowers under the loan programs included in the graph changed from time to time. For example, this is distinctly noticeable for the PLUS loan change to a fixed rate as of July, 2006.

The effect of upfront fees was determined by calculating the differential rate of return after accounting for the cash flow impact of the fees. All loans were analyzed assuming they were paid over a ten year term.

Borrower benefits that may be offered by some providers were not included in these calculations. These offers and the requirements to earn them vary widely, and the percentage of borrowers that actually earn them is unknown. For example, The Direct Loan Program currently offers to rebate 1.5% of the upfront fee on PLUS Loans, but this amount is added back to the loan if the borrower is delinquent or consolidates within the first twelve months of repayment. Others offer to lower the interest rate by 0.25% if the borrower makes payments automatically from their bank account, but it is estimated that only about 15% choose to do so.

During this period ISL offered to forgive the first six to nine months of interest for parents that borrower from one of its participating lenders. This borrow benefit could lower the effective interest rate on a FFELP PLUS loan by approximately 0.30% to 0.90%.

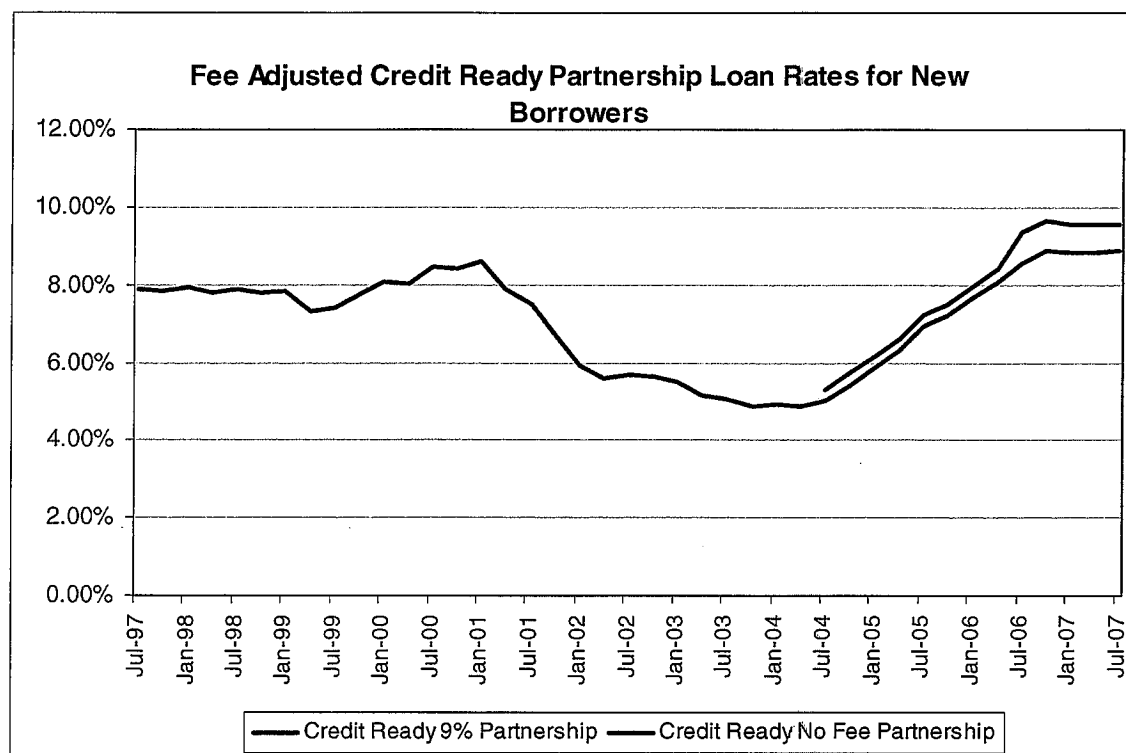
For Partnership Loans, ISL makes a partial rebate of upfront fees if the Partnership Loan pays off early. In accordance with the Iowa Consumer Credit Code, ISL rebates the unamortized portion of the upfront loan fees if the loan balance is paid in full prior to the end of its term. There are no prohibitions or penalties for prepaying the Partnership Loan.

Fixed Rate FFELP PLUS borrowers may be able to lower their interest rate by 0.25% by consolidating their loan. This is because the maximum interest rate on a FFELP Consolidation Loan is 8.25%, while the fixed rate on a FFELP PLUS loan is 8.5%. However, a FFELP PLUS borrower may lose other borrower benefits on the FFELP PLUS loan if they consolidate.

Chart 2
Current and Average Interest Rates

Loan Type	Interest Rate Type	Current Interest Rate	Ten Year Average	
			Interest Rate	Fee Affected Interest Rate
PLUS	Variable/Fixed	8.50%	6.90%	7.62%
Direct PLUS	Variable/Fixed	7.90%	6.83%	7.77%
Credit Worthy Partnership - 5% Fee	Variable	7.56%	5.77%	6.94%
Credit Worthy Partnership - 0% Fee	Variable	8.21%	6.44%	6.44%
Credit Worthy Partnership - 1% Fee	Fixed	8.40%	8.40%	8.63%

Chart 3



Footnotes

This graph depicts the rates available to new Credit Ready Partnership borrowers that received their first loan on the dates noted on the X axis. The effect of upfront fees was determined by calculating the differential rate of return after accounting for the cash flow impact of the fees. All loans were analyzed assuming they were paid over the standard twenty year term.

Comparison of ISL and New Jersey Private Loans

Four relevant facts why ISL' and New Jersey's private loan programs are not comparable.

1. The New Jersey loan organization receives \$270 in annual tax-exempt bonding authority which they use entirely to fund their private loans. In other words, their program is 100% funded by tax-exempt bonds. In contrast, ISL receives approximately \$40 million a year in tax-exempt bonding capacity, and therefore the Iowa private loan program is only 15% funded by tax-exempt bonds. While this is clearly helpful to reduce costs, it is far short of the support given the New Jersey program. The result of that additional \$230 million in annual tax -exempt bonding authority granted by the state to support for private student loans in New Jersey is what provides the resources needed to lower the rates to borrowers. Greater tax-exempt authority could be given in Iowa to ISL in order to lower rates on private loans, but that decision is the state's not that of the lender organization.
2. The New Jersey organization does not do a significant volume of federally-guaranteed FFELP loans (only \$5 million a year) so essentially none of their organization revenues are used to fund FFELP borrower benefits. ISL has committed over time nearly \$100 million to FFELP borrower benefits which lower costs for Iowa students and their families using these federal programs. State policymakers could ask us to reduce those benefits on federal loans to make greater reductions on private loans, but have not done so, and ISL does not

anticipate that being a position they will take. ISL continues to believe providing incentives to lower students' costs when using the federal loan programs with a portion of our resources is in the best interest of Iowans.

3. Only 5% of the New Jersey private loans are "credit ready," meaning loans made to students who have not yet established a credit history. Even then these loans are only made in New Jersey to graduate or professional students. ISL makes 70% of its private loans to credit ready undergraduates who have no other recourse or no co-signer to help find available funds, and might not attend college otherwise. This program exists to insure students have options that will allow them to pursue higher education, just as was contemplated when the program was authorized by the state over 15 years ago. ISL has additionally set a policy of notification of school financial aid officers of such applications to verify need for such loans, as well as having a process of requiring the student to complete a financial planning exercise prior to approving such loans. These are policies ISL is already pursuing in the students' interest which are now being discussed in Congress as potential standards all lenders in the nation should follow. This program helps insure college access for Iowans without other means to do so.
4. Iowa and New Jersey also differ greatly in the financial capacity of our families to pay for college. Iowa ranks in the bottom half of the country in median income, meaning it is harder to find a qualified cosigner here in Iowa than it is in New Jersey, which has the second highest median income in the country. The resources New Jersey families have are, on average, much beyond those of Iowans attempting to pay for college.

Comprehensive Current Comparison of Loans

Iowa Student Loan		ISL Partnership I	ISL Partnership II	ISL Partnership III	ISL Partnership IV	Federal PLUS Loan	Federal PLUS Loan	Competitor (22)
Loan Comparison Grid		Credit Worthy 1%	Credit Worthy 5%	Credit Worthy 0%	Credit Worthy 0%	Offered by Iowa Student Loan	Direct Lending	Credit Worthy 0%
Annual Loan Minimum		\$500	\$500	\$500	\$500	None	None	\$500 (22)
Annual Loan Maximum		Cost of Education Less Financial Aid	Cost of Education Less Financial Aid	Cost of Education Less Financial Aid	Cost of Education Less Financial Aid	Cost of Education Less Financial Aid	Cost of Education Less Financial Aid	Cost of Education Less Financial Aid (22)
Cumulative Loan Maximum		\$80,000	\$80,000	\$80,000	\$80,000	None	None	\$80,000 (22)
Origination Fee (Front End)		1%	5%	0%	0%	3% (27)	4% (27)	0% (22)
Repayment Fee		0%	0%	0%	0%	0%	0%	0% (22)
Loan Amount Used in Comparison		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Current Interest Rate		8.40% (1)	7.56% (1) (6)	8.21% (1) (8)	8.50% (10) (11)	7.90% (15) (16)	10.25% (22) (23)	Variable (22)
Interest Rate Type		Fixed	Variable	Variable	Fixed (12)	Fixed (12)	Variable (22)	Variable (22)
10 Year Average		8.40% (2)	6.24% (7)	6.89% (9)	n/a	n/a	8.82% (22) (24)	8.82% (22) (24)
Interest Rate Adjusted		Fixed (2)	Quarterly	Quarterly	Fixed	Fixed	Quarterly (22)	Quarterly (22)
Capitalization of Interest		Quarterly	Annually	Annually	Quarterly, at most and at the end of granted forbearances (13)	Quarterly, at most and at the end of granted forbearances (13)	At Repayment (22)	At Repayment (22)
Deferments		Yes - Not to exceed 84 months for in school & grace periods	Yes - Not to exceed 84 months for in school & grace periods	Yes - Not to exceed 84 months for in school & grace periods	As allowed by Federal Regulations	As allowed by Federal Regulations	Yes - Not to exceed 84 months for in-school & grace periods (22)	Yes - Not to exceed 84 months for in-school & grace periods (22)
Grace Period		6 Months	6 Months	6 Months	n/a	n/a	6 Months (22)	6 Months (22)
Interim Term		35 Months (3)	35 Months (3)	35 Months (3)	35 Months (28)	35 Months (28)	35 Months (3) (22)	35 Months (3) (22)
Repayment Term		120 Months (4)	120 Months (4)	120 Months (4)	120 Months	120 Months	120 Months (22) (25)	120 Months (22) (25)
Minimum Payment		none	none	none	\$50 Monthly	\$50 Monthly	none (22)	none (22)
Underwriting		Credit Worthy	Credit Worthy	Credit Worthy	Credit Worthy	Credit Worthy	Credit Worthy (22)	Credit Worthy (22)
Co-Borrower/Cosigner		Optional (5)	Optional (5)	Optional (5)	Endorser Required (14)	Endorser Required (14)	None (22)	None (22)
Co-Borrower Release Option		none	none	none	Yes	Yes	none (22)	none (22)
Potential Benefits Borrowers Can Earn Online Pre-Approval		none	none	none	1.50% fee rebate upfront; * 1.50% added back to principal balance at repayment if borrower does not make 12 on-time payments and 0.25% interest reduction for EFT (17)	1.50% fee rebate upfront; * 1.50% added back to principal balance at repayment if borrower does not make 12 on-time payments and 0.25% interest reduction for EFT (17)	none (22)	none (22)
Current Interest Rate: APR		8.52%	8.18%	8.11%	8.01%	8.30%	Varies (22) (26)	Varies (22) (26)
10 Year Average Interest Rate, With Interest Capping : APR		8.52%	6.87%	6.81%	8.01%	8.30%	9.10%	9.10%
Effectuated by the Probability that Borrower Benefit is Achieved						8.36%	7.78%	7.78%

Comprehensive Current Comparison of Loans

Iowa Student Loan		Partnership II	Partnership II
Loan Comparison Grid		Credit Ready 9%	Credit Ready 0%
Annual Loan Minimum		\$500	\$500
Annual Loan Maximum		Cost of Education Less Financial Aid	Cost of Education Less Financial Aid
Cumulative Loan Maximum		\$80,000	\$80,000
Origination Fee (Front End)		9%	0%
Repayment Fee		0%	0%
Loan Amount Used in Comparison		\$10,000	\$10,000
Current Interest Rate		8.06% (1) (18)	9.56% (1) (20)
Interest Rate Type		Variable	Variable
10 Year Average		6.74% (19)	8.24% (21)
Interest Rate Adjusted		Quarterly	Quarterly
Capitalization of Interest		Annually	Annually
Deferments		Yes - Not to exceed 84 months for in school & grace periods	Yes - Not to exceed 84 months for in school & grace periods
Grace Period		6 Months	6 Months
Interim Term		35 Months (3)	35 Months (3)
Repayment Term		120 Months (4)	120 Months (4)
Minimum Payment		none	none
Underwriting		Credit Ready	Credit Ready
Co-Borrower/Cosigner		None	None
Co-Borrower Release Option		none	none
Potential Benefits Borrowers Can Earn		none	none
Online Pre-Approval		Yes	Yes
Current Interest Rate: APR		9.27%	9.42%
10 Year Average Interest Rate, With Interest Capping : APR		7.96%	8.13%
Effectuated by the Probability that Borrower Benefit is Achieved			

Comprehensive Current Comparison of Loans

Iowa Student Loan		Stafford Loan (33)	Stafford Loan (33)	Stafford Loan (33)
Loan Comparison Grid		Iowa Student Loan	Direct Lending	Iowa Competitive Lender (26)
Annual Loan Minimum		n/a	n/a	n/a
Annual Loan Maximum		\$3,500 first year \$4,500 second year, \$5,500 third-fifth years	\$3,500 first year \$4,500 second year, \$5,500 third-fifth years	\$3,500 first year \$4,500 second year, \$5,500 third-fifth years
Cumulative Loan Maximum		\$23,000	\$23,000	\$23,000
Origination Fee (Front End)		2.5% (27)	3.50% (27)	2.5% (27)
Repayment Fee		0%	0%	0%
Loan Amount Used in Comparison		\$10,000	\$10,000	\$10,000
Current Interest Rate		6.80%	6.80%	6.80%
Interest Rate Type		Fixed	Fixed	Fixed
10 Year Average		n/a	n/a	n/a
Interest Rate Adjusted		Fixed (12)	Fixed (12)	Fixed (12)
Capitalization of Interest		At repayment for Unsubsidized loans and at the end of granted forbearances	At repayment for Unsubsidized loans and at the end of granted forbearances	At repayment for Unsubsidized loans and at the end of granted forbearances
Deferments		As allowed by Federal Regulations	As allowed by Federal Regulations	As allowed by Federal Regulations
Grace Period		6 Months	6 Months	6 Months
Interim Term		28 Months (31)	28 Months (31)	28 Months (31)
Repayment Term		120 Months	120 Months	120 Months
Minimum Payment		\$50	\$50	\$50
Underwriting		n/a	n/a	n/a
Co-Borrower/Cosigner		n/a	n/a	n/a
Co-Borrower Release Option		n/a	n/a	n/a
Potential Benefits Borrowers Can Earn		1.50% DOE Origination Fee paid, 1.00% Federal Default Fee paid by ICSAC, 0.25% interest rate reduction for EFT, 1.50% interest rate reduction upon entering repayment status. (17)	1.50% fee rebate upfront; * 1.50% added back to principal balance at repayment if borrower does not make 12 on-time payments and 0.25% interest reduction for EFT (17)	1.50% DOE Origination Fee paid, 1.00% Federal Default Fee paid by ICSAC, 0.25% interest rate reduction for EFT, 1.00% interest rate reduction upon graduation, no payments last 6 months. (17)
Online Pre-Approval		n/a	n/a	n/a
Current Interest Rate: APR		5.51%	6.85%	5.76%
10 Year Average Interest Rate, With Interest Capping : APR		5.51%	6.85%	5.76%
Effectuated by the Probability that Borrower Benefit is Achieved		6.13%	6.99%	6.21%

Comprehensive Current Comparison of Loans

Iowa Student Loan	Federal Consolidation Iowa Student Loan Nexus	Federal Consolidation Direct Lending	Federal Consolidation Iowa Competitive Lender (30)
Loan Comparison Grid			
Annual Loan Minimum	\$7,500	\$0	Varies
Annual Loan Maximum	n/a	n/a	n/a
Cumulative Loan Maximum	n/a	n/a	n/a
Origination Fee (Front End)	0%	0%	0%
Repayment Fee	0%	0%	0%
Loan Amount Used in Comparison	\$23,000	\$23,000	\$23,000
Current Interest Rate	Weighted average rounded up to nearest 1/8th percent, capped at 8.25% (29)	Weighted average rounded up to nearest 1/8th percent, capped at 8.25% (29)	Weighted average rounded up to nearest 1/8th percent, capped at 8.25% (29)
Interest Rate Type	Fixed	Fixed	Fixed
10 Year Average	n/a	n/a	n/a
Interest Rate Adjusted	Fixed	Fixed	Fixed
Capitalization of Interest	At the end of granted forbearances	At the end of granted forbearances	At the end of granted forbearances
Deferments	As allowed by Federal Regulations	As allowed by Federal Regulations	As allowed by Federal Regulations
Grace Period	No	No	No
Interim Term	Immediate Repayment	Immediate Repayment	Immediate Repayment
Repayment Term	Balance Driven	Balance Driven	Balance Driven
Minimum Payment	\$50	\$50	\$50
Underwriting	n/a	n/a	n/a
Co-Borrower/Cosigner	n/a	n/a	n/a
Co-Borrower Release Option	n/a	n/a	n/a
Potential Benefits Borrowers Can Earn Online Pre-Approval	0.25% interest rate reduction for EFT. 1.00% interest rate reduction after 12 on-time payments. (17)	0.25% interest rate reduction for EFT. 1.50% is added back to principal balance at repayment if borrower consolidates with FFELP (17)	0.25% interest rate reduction for EFT. 1.00% interest rate reduction after 36 on-time payments. (17)
Current Interest Rate: APR	5.51%	6.37%	5.73%
10 Year Average Interest Rate, With Interest Capping : APR	5.51%	6.37%	5.73%
Effectuated by the Probability that Borrower Benefit is Achieved	6.29%	6.57%	6.39%

Comprehensive Current Comparisons of Loans Grid Footnotes

Notes:

- 1) Annual percentage rates (APRs) are calculated as full term APRs as provided in federal statute and regulations.

Terms:

- 1) The in-school period is any time after the loan has been disbursed and the student remains enrolled as a full-time student.
- 2) The grace period is any amount of time offered by the lender when the student has graduated or is less than a full-time student, and is not required to make payments on the loan.
- 3) The in-school period together with any grace period offered by the lender up to the first day of repayment is known as the interim period.

Footnotes:

- 1) Under no circumstances will the interest rate for the Partnership Loan Program exceed 21 %.
- 2) Partnership I, Fixed Interest Rate Loan has consistently been set at 8.40 %.
- 3) Interim period has been established as 35 months for comparative purposes. This is based on the average interim period for Iowa Student Loan Private Loan borrowers.
- 4) Standard repayment term for the Partnership Loan Program is stated at 240 months, with options for borrowers to adjust the term downward. For comparative purposes, the term has been reduced to 120 months to compare with the Federal PLUS loan. Conversely, PLUS borrowers with qualifying loan balances can extend their repayment loan term up to 360 months repayment term with a consolidation loan.
- 5) Borrower must use a qualified cosigner only if the borrower does not meet credit or employment criteria.
- 6) The interest rate is based on the average 3-month LIBOR rate. For the period of 01/01/2007 - 03/31/2007, the average 3-month LIBOR rate was 5.36 %. An add-on of 2.20 % is used for this loan program.
- 7) The interest rate is based on the average 10-year LIBOR rate. For the period of 04/01/1997 - 03/31/2007, the average 10-year LIBOR rate was 4.04 %. An add-on of 2.20 % is used for this loan program.
- 8) The interest rate is based on the average 3-month LIBOR rate. For the period of 01/01/2007 - 03/31/2007, the average 3-month LIBOR rate was 5.36 %. An add-on of 2.85 % is used for this loan program.
- 9) The interest rate is based on the average 10-year LIBOR rate. For the period of 04/01/1997 - 03/31/2007, the average 10-year LIBOR rate was 4.04 %. An add-on of 2.85 % is used for this loan program.
- 10) Based on non-Direct Lending loans made on or after 07/01/2006.
- 11) The Federal PLUS Loan interest rate is different from Direct Lending as a result of a drafting error in the law.
- 12) As of 07/01/2006, all FFELP loan interest rates are fixed.
- 13) Federal PLUS Loans generally enter repayment immediately; therefore there is no capitalization of interest. Should a parent received a forbearance or deferment, the interest may be capitalized, at most quarterly and at the end of the granted forbearance.

- 14) Only if the borrower has adverse credit. Decision to require an endorser is at the discretion of the lender.
- 15) Based on Direct Lending loans made on or after 07/01/2006.
- 16) The Federal PLUS Loan interest rate is different from FFELP due to a drafting error in the law.
- 17) All available borrower benefits have been considered in comparison calculations.
- 18) The interest rate is based on the average 3-month LIBOR rate. For the period of 01/01/2007 - 03/31/2007, the average 3-month LIBOR rate was 5.36%. An add on of 2.70% is used for this loan program.
- 19) The interest rate is based on the average 10-year LIBOR rate. For the period of 04/01/1997 - 03/31/2007, the average 10-year LIBOR rate was 4.04%. An add on of 2.70% is used for this loan program.
- 20) The interest rate is based on the average 3-month LIBOR rate. For the period of 01/01/2007 - 03/31/2007, the average 3-month LIBOR rate was 5.36%. An add on of 4.20.% is used for this loan program.
- 21) The interest rate is based on the average 10-year LIBOR rate. For the period of 04/01/1997 - 03/31/2007, the average 10-year LIBOR rate was 4.04%. An add on of 4.20% is used for this loan program.
- 22) The competitor information was compiled by an analysis of the Iowa marketplace, and assumptions are based on the average of available competitor research for loans with credit criteria similar to Partnership Loan Credit-Worthy loans.
- 23) The interest rate is based on the average 3-month prime rate. For the period of 01/01/2007 - 03/31/2007, the average 3-month prime rate was 8.25%. An add on of 2.00% is used for this loan program.
- 24) The interest rate is based on the average 10-year Prime rate. For the period of 04/01/1997 - 03/31/2007, the average 10-year Prime rate was 6.82%. An add-on of 2.00% is used for this loan program.
- 25) Competitor repayment terms vary, 120 month repayment term was used for comparison purposes.
- 26) Competitor selected is offering the most competitive terms.
- 27) Includes Federal Default Fee of 1%.
- 28) For comparative purposes, PLUS Loan scenarios factor in an interim period comparative to Iowa Student Loan Private Loans.
- 29) The current average interest rate for consolidation loan is 6.625%.
- 30) Competitor Lender terms are representative of the consolidation loan benefit offered by a majority of the lenders in Iowa. There are lenders that offer a 2% interest rate reduction after 48 months of on-time payments, but they are seldom realized and were therefore excluded from the analysis.
- 31) Interim period has been established as 28 months for comparative purposes. Based on the average interim period for Iowa Student Loan Stafford Loan borrowers.
- 32) The Stafford loan comparison considers unsubsidized loans.